

NEWCASTLE MUNICIPALITY

VIREMENT POLICY

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1. **Definitions**

1. **“Accounting Officer”** The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA.

2. **“Approved budget”** means an annual budget approved by a municipal council.

3. **“Budget-related policy”** means a policy of a municipality affecting or affected by the annual budget of the municipality

4. **“Chief Financial Officer”** means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the Chief Financial Officer.

5. **“Capital Budget”** This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.

6. **“Council”** means the council of a municipality referred to in section 18 of the Municipal Structures Act.

7. **“Financial year”** means a 12-month year ending on 30 June.

8. **“Line Item”** an appropriation that is itemised on a separate line in a budget adopted with the idea of greater control over expenditures.

9. **“Operating Budget”** The Municipality’s financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.

10. **“Ring Fenced”** an exclusive combination of line items grouped for specific purposes for instance salaries and wages.

11. **“Service delivery and budget implementation plan”** means a detailed plan approved by the mayor of a municipality in terms of section 53(1)(c)(ii) for implementing the municipality’s delivery of municipal services and its annual budget.

12. **“Virement”** is the process of transferring an approved budget allocation from one operating line item or capital project to another, with the approval of the relevant Strategic Executive Director. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.

13. **“Vote”** means one of the small segments into which a budget of a municipality is divided for the appropriation of funds for the different items of revenue and expenditure for all departments in the municipality.

2. Abbreviations

1. **C.F.O.** – Chief Financial Officer
2. **IDP** – Integrated Development Plan
3. **MFMA** – Municipal Finance Management Act No. 56 of 2003
4. **SDBIP –** Service Delivery and Budget Implementation Plan
5. **CM** – Council Minute/'s

3. Objective

To allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

4. Virement Clarification

Virement is the process of transferring budgeted funds from one line item number to another, or from one function to another with the approval of the relevant Strategic Executive Director, Director, Manager or any employee delegated to enable budget managers to amend on approved budgets in terms of (Section 28 (2) (c) (d) of the MFMA). The bottom line of the original approved budget should remain unchanged.

Virement should accommodate all 7 segments that is: project, item, function, funding, region, costing and GFS

5. Financial Responsibilities

Strict budgetary control must be maintained throughout the financial year in order that potential overspends and / or income under-recovery within individual vote departments are identified at the earliest possible opportunity. (Section 54 MFMA)

The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. The budget virement process is one of these controls. (Section 27(4) MFMA)

It is the responsibility of each Strategic Executive Director to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78.

6. Virement Restrictions

a) No funds may be transferred between functions without the approval of both heads of departments and the Chief Financial Officer, unless through an adjustment budget as per S28 of the MFMA.

b) Virements may not exceed a maximum of 20% of the total approved operating expenditure budget, with the exception of line items where virement is implemented in terms of MSCOA compliance.

c) A virement may not create new policy, significantly vary the current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years. (section 19 and 21 MFMA)

d) Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with altered outputs and measurements for approval. (MFMA Circular 13 page 3 paragraph 3)

e) No virement may commit the municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Council. This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles, photo copier's or fax machines.

f) No virement may be made where it would result in over expenditure in the vote and in each line item. (section 32 MFMA)

g) If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.

h) Virements in respect of ring-fenced allocations must be made within ring fenced items. These include finance charges, debt impairment, depreciation and employee related costs.

i) Virements for employee related cost may only be allowed for month end procedures and must be within the employee related costs category.

j) Virements on fleet budget may only be done within the vote and fleet budget.

k) Virements should not result in adding 'new' projects to the Capital Budget. Any new projects may only added in compliance with S28 of MFMA or the Budget Policy of the municipality.

l) Virements are permitted after three months of the start of the financial year. However virements to correct budget to be MSCOA compliant are permitted at any time of the financial year.

m) Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 MFMA)

n) Virements should not be permitted in relation to the revenue side of the budget.

o) Virements from capital budget to operational should not be permitted as per circular 51 of the MFMA; this may only be permitted via adjustment budget.

p) Virements from an amount of R200 000 on both operational and capital budget may only be actioned after approval by the Executive Committee of Council.

q) Virements are not allowed between sources of funding especially if such sources refer to conditional grant funding or funding received for a specific purpose. Approval of virements between funding sources will be subject to the authorization of the Chief Financial Officer, accompanied by a motivation.

7. **Virement Procedure**

a) A request for a virement must be in a memorandum format which must be signed by any official delageted in terms of municipal delegations policy and should be endorsed by Director Budget and Financial Reforms or must be in a form of item to EXCO or to council. That item should be confirmed by budget office if such funds are available to be moved.

b) If the virement is between two different departments or functions both Executive Strategic Directors must sign where funds are moved and where funds are transferred endorsed by the Chief financial officer, otherwise if funds are moved within same functions any senior official may sign and this may be endorsed by a director budget or budget manager.

c) Any virement with the outcome to correct budget to be MSCOA compliant may be initiated by any senior official to the director budget or manager budget by means of internal emails, otherwise this will be corrected by budget office from time to time.

d) All virement requests, inclusive of relevant documentation, must to forwarded to the budget office.

e) Virements relating to employee related costs for the purposes of month-end procedures shall be approved by the Director: Budget and Financial Reports which each vote by means of internal email.

f) Virements relating to fleet budget for the purpose of month-end and other urgent operational requirement shall be authorized by the Director: Budget and Financial Reporting.

g) Budget transfers, to and from a particular vote per year, in excess of R200 000.00 with a maximum as determined under section 6(p) requires the approval of the Executive Committee. Such a virements must be accompanied by a full report detailing the compelling reasons that lead to it.

h) The Municipal Manager must report to the Mayor on a quarterly basis on those virements above R200 000 that have taken place during that quarter.

i) Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments

not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA Section 28).

8. Implementation of the Policy

(a) The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Strategic Executive Director: Budget and Treasury Office.

(b) The policy shall be reviewed on annual basis and updated if there are any changes brought about through an amendment of any legislation and/or policies by National Treasury or arrangement within the municipality.

(c) This policy must be read together with the Budget and the Local Government Municipal Finance Management Act, Act 56 of 2003.